

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT

OF

INDIANA STATE FAIR COMMISSION

January 1, 2003 to December 31, 2003

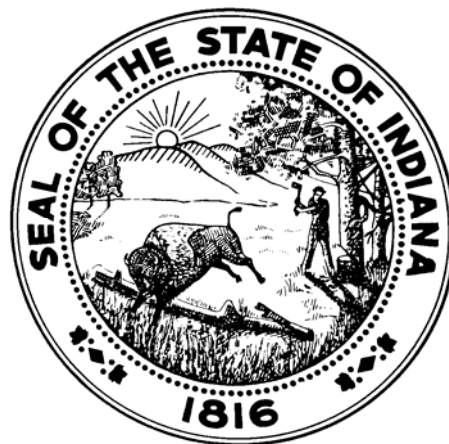


TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements	3
Basic Financial Statements:	
Statement of Net Assets – Proprietary Fund	4-5
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	6-7
Statement of Cash Flows – Proprietary Fund	8-9
Statement of Fiduciary Fund Net Assets	10
Statement of Changes in Fiduciary Net Assets	11
Notes to Financial Statements	12-19
Required Supplementary Information	
Schedule of Funding Progress	20
Audit Results and Comments:	
Property, Plant and Equipment.....	21
Center for Agriculture Science and Heritage	21
Timely Deposits	22
Ticket Office Accountability.....	22
Exit Conference	23
Official Response	24-25

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Mr. William Stinson	03-03-93 to 12-15-04
Executive Director	Ms. Cynthia C. Hoyer	12-16-04 to 12-31-05
President	Mr. Terry Hoffman	10-01-01 to 09-30-06
Chairman	Dr. Gene Sease	06-01-02 to 05-31-06



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

TO: THE OFFICIALS OF THE INDIANA STATE FAIR COMMISSION

We have audited the accompanying basic financial statements of the business-type activity and the aggregate remaining fund information of the Indiana State Fair Commission as of and for the year ended December 31, 2003, which collectively comprise the Commission's basic financial statements. These financial statements are the responsibility of the Indiana State Fair Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The capital asset note does not have full disclosure because the Indiana State Fair Commission does not have a specific capital asset policy.

In our opinion, except for the omission of the capital asset policy in the notes to the basic financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activity and the aggregate remaining fund information of the Indiana State Fair Commission as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States.

The Schedules of Funding Progress, as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Indiana State Fair Commission has not presented Management Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

December 7, 2004

INDIANA STATE FAIR COMMISSION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2003

Assets

Current Assets:

Cash and Cash Equivalents	\$ 1,788,851
Accounts Receivable	761,056
	<hr/>
Total Current Assets	2,549,907
	<hr/>

Non-current Assets:

Cash and Cash Equivalents:	
Repair and Replacement Fund	1,000,000
Construction Escrow Account	76,369
Investments:	
Bond Project Account - Mutual Funds	5,591,778
Bond Debt Service Account - Mutual Funds	2,258,397
Bond Funding Account - Mutual Funds	246,919
	<hr/>
Total Noncurrent Assets	9,173,463
	<hr/>

Deferred Charges - Bond Issuance Costs	688,286
	<hr/>

Construction in Progress	10,130,501
	<hr/>

Property, Plant, and Equipment:

Land and Improvements	8,342,368
Buildings and Improvements	50,825,606
Machinery and Equipment	2,330,162
Office Furniture and Equipment	1,146,390
Less: Accumulated Depreciation	(25,589,048)
	<hr/>

Total Property, Plant and Equipment	37,055,478
	<hr/>

Total Assets	59,597,635
	<hr/>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2003
(Continued)

Liabilities and Fund Equity

Current Liabilities Payable From Unrestricted Funds:

Accounts Payable	\$ 959,319
Contracts Payable	739,912
Salaries Payable	74,624
Deferred Income	151,603
Scholarships Payable	-
Compensated Absences Payable	212,384
Due To Other Funds	-

Total Current Liabilities Payable
From Unrestricted Funds

2,137,842

Noncurrent Liabilities:

Revenue Bonds Payable	21,190,523
Compensated Absences Payable	115,116

Total Noncurrent Liabilities

21,305,639

Total Liabilities

23,443,481

Net Assets:

Invested in Capital Assets Net of Related Debt	25,995,456
Restricted - Expendable	
Future Debt Service	8,097,094
Other Purposes	1,076,369
Unrestricted (Deficit)	985,235

Total Net Assets

\$ 36,154,154

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended December 31, 2003

Operating Revenues:

Fair Operations:

Gates	\$ 2,787,960
Concessions/Midway	2,057,539
Entertainment	766,371
Sponsorship	809,004
Department	515,888
Sport/Events	259,485
Livestock	247,682
Shuttle Bus	137,611
IUPUI Parking	205,379
Other	89,236
	<hr/>
Total Fair Operations	7,876,155
	<hr/>

Non-Fair Operations:

Concessions	531,816
Rentals of Buildings, Grounds, and Equipment	1,529,563
Expense Reimbursement	1,221,430
Fairground Events	216,522
Ice Skating and Skate Shop	340,305
Sponsorships	220,000
Other	160,989
	<hr/>
Total Non-Fair Operations	4,220,625
	<hr/>

Facility Charge Operations:

Facility Charge Revenue	1,060,328
	<hr/>
Total Operating Revenue	13,157,108
	<hr/>

Operating Expenses:

Fair Operations:

Payroll	1,615,082
Services Other Than Personal	235,499
Services by Contract	3,840,159
Materials, Parts, and Supplies	473,093
Awards	699,472
Travel	77,867
Bad Debt Expense	2,230
	<hr/>
Total Fair Operations	6,943,402
	<hr/>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended December 31, 2003
(Continued)

Operating Expenses (Continued):

Non-Fair Operations:

Payroll	\$ 2,891,487
Services Other Than Personal	1,345,813
Services by Contract	2,580,974
Materials, Parts, and Supplies	528,344
Equipment	102,267
Depreciation	3,004,835
Awards	79,057
Travel	13,717
Bad Debt Expense	80,250
4-H Scholarship Awards	-
Total Non-Fair Operations	<u>10,626,744</u>

Facility Charge Operations:

Payroll	309,538
Services by Contract	99,479
Materials, Parts, and Supplies	13,190
Capital Expenditures	<u>327,670</u>
Total Facility Charge Operations	<u>749,877</u>

Total Operating Expenses	<u>18,320,023</u>
--------------------------	-------------------

Operating Income (Loss)	<u>(5,162,915)</u>
-------------------------	--------------------

Nonoperating Revenues (Expenses):

Property Tax Distribution	1,306,446
Riverboat Distribution	2,836,510
Pari-Mutual, Off-Track Betting Distribution	151,159
Interest Income	18,633
Gain on Sale of Land	<u>3,675</u>
Total Nonoperating Revenues	<u>4,316,423</u>

Net Income (Loss)	(846,492)
-------------------	-----------

Total Net Assets, January 1	<u>37,000,646</u>
-----------------------------	-------------------

Total Net Assets, December 31	<u><u>\$ 36,154,154</u></u>
-------------------------------	-----------------------------

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended December 31, 2003

Cash Flows from Operating Activities	
Cash Received From Customers	\$ 12,813,385
Cash Paid for General and Administrative	<u>(14,256,887)</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,443,502)</u>
Cash Flows From Noncapital Financing Activities	
Tax Distributions From State	<u>6,204,217</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>6,204,217</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition/Construction of Capital Assets	(9,599,828)
Principal Payments - Bonds/Notes	(1,625,000)
Interest Paid - Bonds/Notes	<u>(1,179,259)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(12,404,087)</u>
Cash Flows From Investing Activities	
Interest Received	<u>124,451</u>
Net Cash Provided (Used) by Investing Activities	<u>124,451</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,518,921)
Cash and Cash Equivalents, January 1	<u>18,481,235</u>
Cash and Cash Equivalents, December 31	<u><u>\$ 10,962,314</u></u>
Reconciliation of Cash, Cash Equivalents and Investments	
Cash and Cash Equivalents, Current, per Balance Sheet	\$ 1,788,851
Cash and Cash Equivalents, Restricted, per Balance Sheet	<u>9,173,463</u>
Cash, Cash Equivalents and Investments per Balance Sheet	<u><u>\$ 10,962,314</u></u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2003
(Continued)

Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ (5,162,915)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation/Amortization Expense	3,004,835
Bad Debt Expense	82,480
Changes in Assets and Liabilities:	
(Increase) Decrease in Due from Other Funds	(1,361)
(Increase) Decrease in Accounts Receivable	(333,119)
Increase (Decrease) in Due to Other Funds	-
Increase (Decrease) in Scholarships Payable	-
Increase (Decrease) in Accounts Payable	241,655
Increase (Decrease) in Contracts Payable	739,912
Increase (Decrease) in Salaries Payable	14,826
Increase (Decrease) in Deferred Revenue	(9,243)
Increase (Decrease) in Accrued Compensated Absences	7,152
Increase (Decrease) in Other Accounts Payable	<u>(27,724)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (1,443,502)</u></u>
Net Cash Provided (Used) by Operating Activities from Cash Flows - Direct	<u><u>\$ (1,443,502)</u></u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
December 31, 2003

	Private Purpose Trust Fund
<u>Assets</u>	
Assets:	
Cash and Cash Equivalents	\$ 61,539
Total Assets	<u>61,539</u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Scholarships Payable	5,866
Accounts Payable	<u>1,569</u>
Total Liabilities	<u>7,435</u>
Net Assets:	
Held in trust for trust beneficiaries	<u>54,104</u>
Total Net Assets	<u><u>\$ 54,104</u></u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For The Year Ended December 31, 2003

	Private Purpose Trust Fund
Additions:	
Contributions	\$ 1,187
Interest Income	692
Total additions	<u>1,879</u>
Deductions:	
4-H Scholarship Awards	<u>948</u>
Total Deductions	<u>948</u>
Net Increase (Decrease) in Net Assets	<u>931</u>
Net Assets Held in Trust, January 1	<u>53,173</u>
Net Assets Held in Trust, December 31	<u><u>\$ 54,104</u></u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The State Fair Commission was established per IC 15-1.5-2 as the trustee for and on behalf of the people of the State of Indiana to administer the State Fairgrounds as trust property of the State of Indiana. The Commission is a separate body, corporate and politic. The Commission is not a state agency. The Commission shall maintain and develop the Fairgrounds and other properties owned by the Commission.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the enterprise funds are charges to customers for admission and rental of facilities. Operating expenses for the enterprise funds include the cost of maintenance of the facility, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to ninety days.

Statutes authorize the Commission to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

INDIANA STATE FAIR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, equipment, and furniture, are reported at actual historical cost.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the State Fair Commission during the current year was \$929,078.

4. Net Assets

Net assets of the Commission are classified in four components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Noncurrent expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the State Fair Commission, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II. E.

Restricted nonexpendable net assets equal the principal portion of permanent endowments.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

E. Grants and Contributions

From time to time, the Commission receives grants from the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

INDIANA STATE FAIR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

F. Compensated Absences

1. Sick Leave

Commission employees earn sick leave at the rate of nine days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is generally not paid to employees.

2. Vacation Leave

Commission employees earn vacation leave at rates from twelve days to twenty-five days per year based upon the number of years of service. Vacation leave may be accumulated indefinitely. Accumulated vacation leave is paid to employees in good standing, through cash payments for up to a maximum of thirty days vacation upon separation of service.

3. Personal Leave

Commission employees earn personal leave at the rate of three days per year. Unused personal leave may be accumulated to a maximum of three days. Any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Accumulated personal leave is not paid to employees.

Vacation and personal leave is accrued when incurred and reported as a liability.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits with financial institutions at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9-2.5) requires the State Fair Commission to invest no more than 50% of the funds available for investment in a money market type fund. The portfolio of an investment company must be limited to the following:

(1) Direct obligations of the United States

(2) Obligations issued by any of the following:

(A) A federal agency.

(B) A federal instrumentality.

(C) A federal government sponsored enterprise.

(3) Repurchase agreements fully collateralized by obligations described in subdivision (1) or (2).

The Commission's investments are in open-ended mutual funds that are not subject to categorization.

INDIANA STATE FAIR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 472,208	\$ 9,658,293	\$ -	\$ 10,130,501
Total Capital Assets, Not Being Depreciated	<u>472,208</u>	<u>9,658,293</u>	<u>-</u>	<u>10,130,501</u>
Capital Assets, Being Depreciated:				
Land and Improvements	8,258,064	84,304	-	8,342,368
Buildings and Improvements	50,440,950	392,731	8,075	50,825,606
Machinery and Equipment	2,354,014	249,721	273,573	2,330,162
Office Furniture	<u>1,108,363</u>	<u>38,038</u>	<u>11</u>	<u>1,146,390</u>
Totals	<u>62,161,391</u>	<u>764,794</u>	<u>281,659</u>	<u>62,644,526</u>
Less Accumulated Depreciation for:				
Land and Improvements	1,545,798	488,764	-	2,034,562
Buildings and Improvements	18,752,811	2,202,944	-	20,955,755
Machinery and Equipment	1,496,426	253,577	-	1,750,003
Office Furniture	<u>789,178</u>	<u>59,550</u>	<u>-</u>	<u>848,728</u>
Totals	<u>22,584,213</u>	<u>3,004,835</u>	<u>-</u>	<u>25,589,048</u>
Total Capital Assets, Being Depreciated, Net	<u>39,577,178</u>	<u>(2,240,041)</u>	<u>281,659</u>	<u>37,055,478</u>
Total Primary Government Capital Assets, Net	<u>\$ 40,049,386</u>	<u>\$ 7,418,252</u>	<u>\$ 281,659</u>	<u>\$ 47,185,979</u>

C. Construction Commitments

Construction work in progress is composed of the following:

INDIANA STATE FAIR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2003</u>	<u>Committed</u>	<u>Required Future Funding</u>
East Pavillion	\$ 7,684,445	\$ 6,723,157	\$ -	\$ 961,288
4-H Building	4,604,225	2,090,554	-	2,513,671
4-H Landscaping	<u>625,155</u>	<u>540,026</u>	-	<u>85,129</u>
Totals	<u>\$ 12,913,825</u>	<u>\$ 9,353,737</u>	<u>\$ -</u>	<u>\$ 3,560,088</u>

D. Long-Term Liabilities

1. Revenue Bonds

On August 7, 2002, the Indiana State Fair Commission issued \$23,190,000 of general revenue bonds. The interest rate on these bonds starts at 2% and gradually increases to 4.50%. These bonds were issued to refund the January 20, 2001, bond issue of \$3,750,000 and for construction purposes. The minimum annual bond redemption payments are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,355,000	\$ 798,906	\$ 2,153,906
2006	1,375,000	764,422	2,139,422
2007	1,380,000	725,160	2,105,160
2008	1,550,000	678,497	2,228,497
2001	1,510,000	625,732	2,135,732
2010-2014	8,400,000	2,202,590	10,602,590
2015-2017	<u>5,995,000</u>	<u>402,592</u>	<u>6,397,592</u>
Totals	21,565,000	6,197,899	27,762,899
Less: Unamortized Loss on Defeasance	219,894	-	219,894
Less: Unamortized Bond Discount	<u>154,574</u>	<u>-</u>	<u>154,574</u>
Totals	<u>\$ 21,190,532</u>	<u>\$ 6,197,899</u>	<u>\$ 27,388,431</u>

2. Advance Refunding

In prior years, the State Fair Commission defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Commission's financial statements. At December 31, 2002, \$3,320,000 of bonds outstanding are considered defeased.

INDIANA STATE FAIR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

During the year ended December 31, 2003, the following changes occurred in long-term obligations:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Revenue Bonds Payable	\$ 22,536,717	\$ -	\$ 1,346,185	\$ 21,190,532	\$ -
Compensated Absences	<u>318,824</u>	<u>257,144</u>	<u>248,468</u>	<u>327,500</u>	<u>212,384</u>
Totals	<u>\$ 22,855,541</u>	<u>\$ 257,144</u>	<u>\$ 1,594,653</u>	<u>\$ 21,518,032</u>	<u>\$ 212,384</u>

E. Restricted Assets

Noncurrent cash and investments restricted include the following:

1. Repair and Replacement Fund – The Bond Covenants require the State Fair Commission to maintain a balance of \$1,000,000 in the Repair and Replacement Fund.
2. Bond Project Account – Required by the Bond Covenants. These funds are unspent bond proceeds to be used for construction projects.
3. Bond Debt Service Account – Required by the Bond Covenants. These funds are a reserve required by the Bond Covenants.
4. Bond Funding Account – Required by the Bond Covenants. These are funds deposited monthly, ten months a year, as monthly payments to be applied to the semiannual bond payment.

III. Other Information

A. Risk Management

The State Fair Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The policy of the State Fair Commission is not to purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters. Instead, the Commission records as an expenditure any loss as the liability is incurred or replacement items are purchased.

INDIANA STATE FAIR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

B. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana State Fair Commission contributes to the Public Employees Retirement Fund (PERF), a defined pension plan. The PERF is an agent multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern most requirements of the system and give the Commission authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contribution, set by state statute at three percent of compensation, plus interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Washington Street
Indianapolis, Indiana 46204
Ph. (317) 233-4162

Funding Policy

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Commission's annual pension cost for the current year and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual Required Contribution	\$ 112,398
Interest on Net Pension Obligation	(5,656)
Adjustment to Annual Required Contribution	<u>6,151</u>
 Annual Pension Cost	 112,893
Contributions Made	<u>119,586</u>
 Decrease in Net Pension Obligation	 (6,693)
Net Pension Obligation, Beginning of Year	<u>(78,013)</u>
 Net Pension Obligation, End of Year	 <u>\$ (84,706)</u>

INDIANA STATE FAIR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	<u>PERF</u>
Contribution Rates:	
Government	5.25%
Plan Members	3%
Actuarial Valuation Date	07-01-02
Actuarial Cost Method	Entry age
Amortization Method	Level Percentage of Projected Payroll, Closed
Amortization Period	40 Years
Amortization Period (From Date)	07-01-97
Asset Valuation Method	4 Year Smoothed Market

Actuarial Assumptions

Investment Rate of Return	7.25%
Projected Future Salary Increases:	
Total	5%
Attributed to Inflation	4%
Attributed to Merit/Seniority	1%
Cost-of-Living Adjustments	2%

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-00	\$ 100,905	127%	\$ (49,570)
	06-30-01	86,419	142%	(78,013)
	06-30-02	112,893	106%	(84,706)

INDIANA STATE FAIR COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-00	\$ 1,828,026	\$ 1,575,992	\$ 252,034	116%	\$ 2,028,174	12%
07-01-01	1,988,819	2,020,495	(31,676)	98%	2,273,615	(1%)
07-01-02	1,946,780	1,983,474	(36,694)	98%	2,044,413	(2%)

INDIANA STATE FAIR COMMISSION
AUDIT RESULTS AND COMMENTS
December 31, 2003

PROPERTY, PLANT AND EQUIPMENT

Inventory

An annual physical inventory of assets owned by the State Fair Commission has not been conducted.

At least once a year a physical inventory should be taken and compared to the State Fair Commission's listing of assets from its asset control system.

Lack of Capitalization Policy

As stated in the prior three Audit Reports B10246, B15453, and B20953, the Indiana State Fair Commission does not have a capitalization policy establishing a consistent capitalization threshold, or unit cost (e.g., \$5,000) at which a given asset qualifies for capitalization. Historically, the Commission has capitalized virtually all asset purchases. However, we noted that in recent years several purchases have been expensed as incurred.

Each agency, department, institution or office that has funds outside the State accounting system must maintain appropriate accounting records and controls.

CENTER FOR AGRICULTURE SCIENCE AND HERITAGE

The State Fair Commission (SFC) entered into a contract with the Center for Agriculture Science and Heritage (CASH) on October 15, 2003. The contract states that CASH will provide certain services for the benefit of the Commission. The services scheduled in the contract are for the same purposes for which CASH was established per IC 15-1.5-10.5-3. The contract also states that the SFC shall make payment to CASH for services on a quarterly basis, at the rate of \$150,000 per quarter, upon CASH's presentation of an invoice for contract services rendered during such quarter.

The SFC paid CASH \$600,000 on December 24, 2003, for the four quarters of 2003. When CASH billed the SFC for the services provided to the SFC the only documentation given was a schedule of CASH's 2003 expenses, totaling \$601,997.61. It appears that CASH's total expense budget was paid for by the SFC. CASH did not appear to provide specific services for the SFC.

Therefore, the payment to the Center for Agriculture Science and Heritage by the State Fair Commission is a grant. The State Fair Commission does not have statutory authority to grant funds.

INDIANA STATE FAIR COMMISSION
AUDIT RESULTS AND COMMENTS
December 31, 2003
(Continued)

TIMELY DEPOSITS

As stated in the prior Audit Report B20953, we noted that several departments within the Indiana State Fair Commission were not depositing receipts by the next business day. Timely deposit of receipts would improve internal control.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Indiana Code 5-13-6-1(b) states in part: "... all public funds ... shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

TICKET OFFICE ACCOUNTABILITY

The Indiana State Fair Commission's (SFC) ticket office sells tickets for several events during the year. In cases examined by the SFC, tickets would be issued without a corresponding receipt of funds or a voided ticket used for an exchange. Therefore, not all tickets issued were accounted for.

Per the Ticket Office Supervisor, tickets would be exchanged for other tickets. In the interest of expediting the exchange the Supervisor would issue the replacement ticket without obtaining the exchanged ticket. Every ticket issued should be able to be accounted for by either a cash receipt or a voided ticket.

INDIANA STATE FAIR COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on March 1, 2005, with Ms. Cynthia Hoyer, Executive Director; and Mr. Mark Hindsley, Controller. The official response has been made a part of this report and may be found on pages 24 and 25.



INDIANA STATE FAIRGROUNDS

1202 East 38th Street

Indianapolis, IN 46205-2869

(317) 927 • 7500 ★ FAX (317) 927 • 7695

March 17, 2005

Mr. Charles Johnson—State Examiner
Indiana State Board of Accounts
302 West Washington Street—Room E-418
Indianapolis, Indiana 46204

Re: Indiana State Fair Commission
2003 Audit Results

The following is our response to points outlined at the exit conference held at the Administration Building on Tuesday, March 1, 2005 at 3 pm. In attendance were new Executive Director Cynthia Hoyer, Controller Mark Hindsley, and Field Auditor Albert Marshall.

Property, Plant, and Equipment

We concur that a physical inventory of assets owned should be taken. The Accounting Department has been operating short of staff for over a year. While the cost savings were helpful during the lean times, we understand that some of the larger project work, like inventory of assets, had to be deferred. We expect to devote more resources to this project during 2005.

We have been unofficially using the \$5,000 capitalization threshold for several years now. We plan to make it official at the April 2005 Commission meeting. It is typical for ISFC to seek counsel from the State Board of Accounts during the year for assistance in capital versus expense determinations, especially in the area of major repairs.

Center for Agricultural Science and Heritage

The C.A.S.H. contract was an eighteen month contract, retroactive to January 1, 2003. It was not executed until October, 2003. Payment was made on December 24, 2003 at the direction of our Commission Chairman. Two more payments were made in 2004, so we fully expect that ISFC's 2004 audit may voice the same SBA concern regarding the C.A.S.H. contract, and ISFC not having statutory authority to grant funds. It is SBA's interpretation of the C.A.S.H. contract language that the contract appears to look more like a grant agreement, rather than a services agreement. While that was not ISFC's intention, we did not know about SBA's concerns until well into 2004.

Beginning in 2005, the ISFC has absorbed the Center for Agricultural Science and Heritage, a state government entity, also known as "The Barn." The Barn's original 501 (c) 3 foundation; (the Center for Agricultural Science and Heritage, Inc.) lives on as a separate not-for-profit entity. Legislation is currently in process to amend The Barn and Commission statutes.

Timely Deposits

We have addressed this issue before. The 18 samples indicate five checks from our Building Rentals department were delayed in deposit. We believe this was caused by staff absenteeism, rather than an internal control problem. Six checks were late coming from our Entry Department. As we have indicated in past audits, the Entry Department has certain deadlines for 4-H and Open Exhibitors to validate their Fair Entries, and not incur a late fee charge. The State Fair has over 10,000 exhibitors, and 50,000 exhibits. It is very typical for large stacks of mail to be received, which cannot all be processed on the same day. We note that three of the seven untimely deposited checks that came from our Concessions Department were for July settlements from our year-round concessionaires. However, they came in during the first few days of the 2003 State Fair. Our focus is directed toward getting the State Fair's 120 food and beverage concessionaires up and running smoothly, rather than our four more experienced, year-round concessions operators. We will continue to monitor this activity.

Ticket Office Accountability

This issue came to our attention as a result of an ISFC internal audit, and we pursued further investigation. We had two capable employees who took turns supervising the ticket operation at hockey games in the Pepsi Coliseum. The audit revealed certain settlement shortages over the 2003 season. We discovered that each of the two employees had a different method to handle problem tickets that had to be exchanged (broken seat, blocked view, etc.) One method accounted for the returned and re-issued tickets; the other method did not. The problem was in the procedures, and there was no real cash shortage. Our ticket manager has created a new procedure manual to address consistency in methods of handling all ticket transactions.

In conclusion, we appreciate both the opportunity to respond to the audit results with comments, and the State Board of Accounts' continued willingness to be a sounding board for us during the year.

Respectfully submitted,



Cynthia C. Hoyer
Executive Director

Mh031105